

UDC 327

## DECLINE AND FALL OF BRITISH POWER: 1997 TO 2018

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The purpose of this paper is to examine the decline and fall of British power. "Power" is defined as the ability to influence another party and Michael Mann's four sources of social power is employed as an analytical tool.

The four sources of power are traced in historical terms and their interactions and interconnectedness outlined.

The paper takes as its starting point the state of Britain at the end of 1945 up to the 1990s and when Blair became Prime Minister.

The Blair years would see a growing recourse to Military Power which would lead to its armed forces simultaneously fighting in two conflicts in Afghanistan and Iraq.

At the heart of the analysis lies the course of Economic Power which has continued to be the Achilles heel of Britain and a major cause of its decline and fall, which has accelerated since the 2008 Financial Crisis. Ten years on, the consequences would be profound: the deepest recession since the 1920s; the slowest recovery since the 1920s; the worst decade for earnings growth since the 1860s – if not earlier; the highest deficit since the second world war; and the biggest peacetime surge in public debt.

Britain's Economic Power remained fragile albeit the collapse of Britain's manufacturing base now led to increased reliance on the financial sector to fill this "gap". The paper has noted the growing influence of the financial sector since the early 1980s and that in the light of Brexit, it remains likely that the financial sector will grow in importance.

The paper also looks at the ramifications of the Brexit referendum in terms of the conduct of Political Power both domestically and externally. In particular, with respect to the former, the Referendum has revealed deep cleavages in the UK, with Scotland Northern Ireland voting to remain. Scotland saw its own referendum on independence which saw a relatively narrow vote in favour of remaining in the UK. Given Britain's nuclear deterrent – one of the country's claim to "Great Power" status – is located in Scotland, the possibility of a move to independence would have profound consequences for Britain's Military and Political Power.

The paper also looks at the implications of the proposed going it alone on the world stage following Brexit, "Global Britain" in terms of both Military, Political and Economic Power. The Trump Presidency has serious implications for Britain's intentions in view of the rise in protectionist sentiments in the USA. The ability to seek a global role in Military Power by a return to an "East of Suez" appears ambitious in view of the defence spending cuts from 2010 onwards. Indeed, the British Army's regular force is likely to fall to the same level as in 1800.

The paper critically examines the role of political leadership but also seeks to highlight the nature of Ideological Power, as manifested in what Andress has termed "Cultural Dementia" – a return to an imagined community in the past when Britain had an empire.

The referendum appears to have led to the dominance of Political Power/Ideological Power over Economic Power but questions whether this will be sustainable in view of the projected effects of Brexit.

У статті за допомогою методології джерел соціальної влади Майкла Манна досліджено курс і поведінку на політичній арені Великої Британії в період з 1990-х рр. і дотепер. В основі аналізу лежить еволюція економічної влади, що продовжує бути ахіллесовою п'ятою Великої Британії та головною причиною падіння й занепаду її потужності, що прискорилося після фінансової кризи 2008 р. У статті також аналізуються наслідки Brexit щодо політичної влади як усередині країни, так і на міжнародній арені. Зокрема, критично досліджується роль політичного керівництва, проте також робиться висвітлення природи ідеологічної влади. Автор доходить висновку, що Brexit призвів до домінування політичної влади над економічною.

В статье с помощью методологии источников социальной власти Майкла Манна исследован курс и поведение на политической арене Великобритании в период с 1990-х гг. и до наших дней. В основе анализа лежит эволюция экономической власти, которая продолжает быть ахиллесовой пятой

Великобритании и главной причиной падения и упадка ее силы, что ускорилося после финансового кризиса 2008 г. В статье также анализируются последствия Brexit в отношении политической власти как внутри страны, так и на международной арене. В частности, критически исследуется роль политического руководства, однако также делается освещение природы идеологической власти. Автор приходит к выводу, что Brexit привел к доминированию политической власти над экономической.

**Key words:** Great Britain, sources of social power, economic power, political power, Brexit.

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## Introduction

The purpose of this paper is to examine, with the aid of the Sources of Social Power, as noted by Mann, the conduct and course of Britain from the 1990s up to the present day.

The sources of social power are as follows:

- economic;
- political;
- military;
- ideological.

Mann in the course of his four works on this has also outlined a fifth source of power – that of Leadership [12, p. 271].

As noted by Haslam in his recent history of Soviet intelligence, “The role of secret intelligence in the history of international relations has long been a neglected one” [7]<sup>1</sup>. The paper is not concerned with stories of derring-do but with the deployment of intelligence resources as an instrument to further its interests and, by extension, enhance British power. In particular, the UK obtained (and still obtains) around 80% of its intelligence from its signals intelligence operations – the direct descendant of its successful wartime Bletchley Park which had broken the German’s military codes. As noted in the previous paper, the personnel and expenditures on sigint exceeded that of its diplomatic service, thus demonstrating where resources were really being directed to advance Britain’s external aims.

## A brief summary of 1945 to 1997

It has been noted that Britain had finished the Second World War as one of the Big 3 among the USA and the USSR. It had played a leading role in the Bretton Woods conference which established the international financial architecture that would dominate the global scene. It had also played a key role in the creation of the United Nations and was a member of its Security Council with a veto. It also maintained armed forces in Europe, North Africa and the Middle East as well as a substantial presence in south east Asia. Its major competitors, military, economic and industrial, in Europe and Asia – whether Germany or Japan – were, in boxing parlance “down if not out” with devastated homelands and disrupted economies.

But all was not well with the UK in financial and economic terms with the USA having cut off its Lend-lease programme. A postwar loan secured from the USA had been on less than the expected favourable terms expected and its condition of convertibility would cause instability.

The financial and economic circumstances would deteriorate further with the loss of India. Indeed, Britain would commit its military and substantial covert means to maintain its leading role in the Middle East, Africa and Asia in order to protect its dollar earnings derived from its still substantial financial investments – whether in Iran, Malaya, Egypt (the Suez Canal) and even Africa. Verrier [22] had already noted that Britain had commenced in 1942 to increasingly depend on its covert means to secure its important foreign policy interests which were congruent with its significant financial and economic interests.

Thus, asides from the loss of the Suez Canal in 1956, Britain had been heavily engaged with the USA in maintaining its far flung interests. The joint CIA-SIS backed coup in Iran – for which US oil interests later received a 20% stake in the new foreign oil consortium – had taken place in 1953; in 1958 the USA and UK had intervened in Lebanon and Jordan to ensure Arab nationalism did not supplant their backed rulers; in 1960, the UK had sought to protect Kuwait from an alleged Iraqi invasion; in the 1960s, the UK had cooperated with the Saudis in an undeclared war in the Yemen and later in the Oman; the British had cooperated with the US in furthering the military coup in Indonesia; and so on.

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<sup>1</sup> The preface provides a useful set of factors to be considered when seeking to incorporate intelligence into a revised history of events. A particular case examined is that of secret discussions between the British prime minister Chamberlain and Nazi Germany and the reaction of the Soviet authorities on obtaining intelligence thereon in their deliberations which ultimately led to the notorious Molotov-Ribbentrop Pact of August 1939 that sealed the fate of Poland. British history has tended to ignore such discussions in order to maintain a simple narrative of Soviet-Nazi perfidy in dismembering Poland. Of course the corollary to British providing a misleading history is the Soviet Union maintaining the Second World War began only in 1941 when the Germans attacked rather than in September 1939 when the USSR invaded Poland. History is thus abused and misused by all and sundry for their own base purposes.

The anomaly of these times was the Suez Crisis of 1956 which had revealed, in full, British reliance on the USA for its own global role. The falling out between the USA on one side and the British and French on the other – particularly at a time of tensions with the USSR over the latter's intervention in Hungary – was remarkable as it served as both a break with the normal cooperation over interests – the US had even assisted the French in Vietnam up to 1954 – but for compounding Britain's "Europe" problem. Britain had kept aloof from the European first steps towards integration during the 1950s and its caving in to US pressure as well as its growing reliance on the USA for a nuclear delivery system had not endeared it to other European countries and the French in particular. Its membership bid for the European project was vetoed in 1963.

For all of its so called global reach, Britain's political class had a remarkable blind spot in terms of its European backyard. This was curious on multiple grounds. In the 1940s, it had constructed the mechanisms for distributing US financial and economic aid under the Marshall Plan and had essentially done the spadework for what became the NATO alliance. It maintained a sizeable military presence in Germany and had intervened on the side of the Greek Royalist forces against the Greek communist underground army. It also had been involved in various covert mechanisms, such as establishing German's counterespionage authority, the BfV [4]<sup>2</sup> as well as the staybehind networks in Italy – the so called Gladio<sup>3</sup>.

Its intelligence services maintained a dense network of contacts with the European intelligence services in Scandinavia and Western Europe in addition to the important US connection and the Five Eyes intelligence collaboration, which also included Australia, New Zealand and Canada. Through its signals intelligence network – a continuation of the successful Bletchley Park operation – it had the ability to read other people's communications.

But despite all this, the UK failed to translate all these advantages into political leadership of Europe (or at least the Western part). Britain was rapidly finding itself in a "no-man's land" whereby it was liquidating its empire and, if possible, finding reliable local elites to take over the "reins of power" [23] but it had not come up with a vision of what it sought to do in the new postwar order. Other Western European countries were also liquidating their empires but were also strongly engaged in forging a common European home – the French being the prime example.

One alternative: to essentially throw itself wholeheartedly into cooperation with the USA and its Vietnam adventure – and thus capitalising on its commitment in economic and financial terms as did Australia, Canada and particularly South Korea – was rejected by the Labour government. The 1960s represent a nadir for the UK as it suffered a major sterling devaluation and earned another veto on joining the European project. The UK had run out of options and was essentially drifting.

The Heath government appeared to effect a major transformation in Britain's fortunes. Heath secured Britain's membership of the Common Market, albeit with the support of the pro European Labour Party MPs. Heath sought to distance the UK from the US in a number of instances; indeed intelligence cooperation was suspended in the October 1973 War between Israel and Egypt and Syria. Furthermore, Heath's government was approached by, of all people, the Soviet Union for possible intelligence cooperation on China [1, p. 285]. This was declined by Heath who enjoyed good relations with the Chinese. In September 1971, the Heath government was to expel over one hundred Soviet intelligence officers from London [6]<sup>4</sup> in the largest ever operation undertaken – not even matched by the May government's recent expulsions of Russian diplomats.

All came to naught in 1974 over Britain's economic problems and significant industrial unrest which saw the return of the Wilson government. A mounting financial crisis would lead to a bailout by the IMF in 1976. The British people accordingly saw few visible benefits of membership of the European project.

The Thatcher government would seek to curb the influence of the unions and also come to grips with Britain's longstanding economic problems with ultimately mixed results. The Thatcher "permanent revolution" would be assisted by the surge in oil revenues during the 1980s which helped maintain a degree of stability and order – notwithstanding some violent confrontations in the Miners' Strike of 1984–1985. The country's manufacturing sector was decimated and considerable restructuring took place in industries that were transferred to private ownership. What became evident was a growing financial sector which was also transformed by the relaxation of regulatory controls, changes in technology and telecommunications, as well as increasing trends of financialisation. The City of London was particularly well placed for addressing the latter as it had become during the 1960s the centre of the Eurodollar market which had undermined the

<sup>2</sup> For the background and information on Britain's candidate, Otto John.

<sup>3</sup> This was the codename for a NATO "stay-behind" operation in Europe during the Cold War. Its purpose was to prepare for, and implement, armed resistance in the event of a Warsaw Pact invasion and conquest. In Italy, it was reported that it became enmeshed in right wing terrorism as part of the "strategy of tension" to frustrate the entry of the Italian Communist Party into government. See: Willan P. *Puppetmasters: The Political Use of Terrorism in Italy*. London: iUniverse, 2002; Ganser D. *NATO's Secret Armies: Operation GLADIO and Terrorism in Western Europe*. London: Routledge, 2004.

<sup>4</sup> This was Operation Foot. According to Aldrich, op cit, 2011, p. 283-5, the UK intentionally kept the White House "in the dark" about its planned expulsions of diplomats – another sign of the UK distancing itself from Washington in its plans for joining the European project. The author recalls watching the expelled Soviet diplomats boarding their plane home on a children's news programme!

old Bretton Woods system and indeed the City also benefitted from the consequence of the collapse – trading in, and benefitting from, changes in exchange rates and the attendant financial instruments.

Thus, Britain's Economic Power was substantially changed in that its manufacturing sector became less and less important while its services sector and particularly its financial sector grew in importance. Of interest is that the financial sector benefitted from fluctuating exchange rates to earn fees and commissions; but which could prove detrimental to the country if it wished to join the Exchange Rate Mechanism or the wider project of European Monetary Union, which had been a key objective of "an ever closer union" since at least the early 1970s.

Britain's Military Power remained relatively intact with successes in the Falkland War of 1981–1982 and the Gulf War of 1991. Its special forces were employed in a considerable number of countries on training missions and other support roles. Its intelligence services had achieved some notable successes against the Soviet Union with the recruitment of Oleg Penkovsky in 1962 and Oleg Gordievsky in the 1980s [7, p. 197–199, 271]. A defection of a KGB official to the British in Geneva had led to the provision of information to the Iranian government which enabled them to essentially eliminate the one body of opposition linked to the Communist Tudeh movement to the Ayatollahs which might have threatened them.

The Thatcher government had also sought to change people's beliefs and the views on society. Thus, the economic aspects of privatisation, deregulation, free market principles, competition and increased share – and property ownership – a further twist to the trend of commodification identified by Polanyi [16] – had also led to changes in peoples' behaviours and world views to some degree. They certainly created a "new consensus" in the political classes. Thatcher's successor, John Major, had sought to temper some of the perceived hard edges; the Blair government would also follow in her footsteps. Not for nothing did one respected commentator refer to Blair and Gordon Brown (the Chancellor of the Exchequer up to 2007 and prime minister from then to 2010) as Thatcher's "Sons" [8].

Britain's Political Power would still remain elusive. It was still a veto wielding member of the UN Security Council; it still held a reasonable percentage shareholding in the IMF. It had, with some exceptions, liquidated its empire. It had fought a war to defend its interest in the South Atlantic – the Falklands; it retained interests in various parts of real estate as part of a bargain with the USA for their exploitation as a military base i. e. Diego Garcia, or its significant bases in Cyprus for signals intelligence purposes or force projection. Its diplomatic service still occupied a first rank in terms of professionalism, global coverage and relatively insulated from political whims.

The problem still remained in its attachment to the European project and its ability to seek a role therein in the face of its own domestic circumstances and the shifting international scene from multiple sources.

One of the problems facing the UK in terms of Europe was most likely the absence of a broadly based coalition of the political class as well as, in fact, of the wider public in favour of the project itself.

While Churchill's views on Europe were ambivalent – he talked of a United Europe although Britain would remain outside such a grouping – he remained committed to Britain as an imperial power. From then on, most premiers have essentially followed the "Churchill line" as modified by reactions to "events". Thus, Macmillan belatedly woke up to the seriousness of the European project far too late and was hopelessly compromised in French (and most possibly others') eyes by his behaviour over the Suez Crisis and his cosiness with the USA.

Wilson approached the Common Market again on prospective membership in late 1967 when his US option had run its course to provide financial support and sterling had devalued, and was again rebuffed by the French.

Heath's personal diplomacy had triumphed – as enabled by the French and European partners – but it is worth noting that the parliamentary vote to join the Common Market was secured by the assistance of the minority pro European wing of the opposition Labour Party and Heath's leadership of the Conservative Party which could ensure its MPs were "whipped" into following his line.

With Heath voted out of the leadership, the Conservative Party followed a more sceptical line towards Europe and particularly when Thatcher became Prime Minister. During her term in office, the Labour Party was either in opposition to the European project (under Michael Foot) or more ambivalent under Kinnock.

These underlying tensions would soon burst forth in the Major government when a minority of its party members were avowedly anti Europe and voted against their own government on various opt outs secured by Major in his negotiation of the Maastricht Treaty. These opt outs were, however, a tentative step away from the trend towards integration being actively pursued by its European neighbours.

These fissures in the Conservative Party would see a growing tendency towards scepticism of continued membership of the European project which were on display from 1997 onwards and only partially hidden when the Conservatives entered coalition with the Liberal Party in 2010 following the General Election. Indeed Cameron's decision, to the chagrin of German Chancellor Merkel, to leave the European centre right wing grouping, the European People's Party, for the lesser membership of the eurosceptic European Conservatives and Reformists looks in retrospect a clearer indicator of the way the wind was blowing than appeared at the time.



### The Blair Premiership

Tony Blair became Prime Minister in 1997 after a landslide victory with a more European oriented perspective. This had ranged from developing closer defence co operation with the French to waiving the opt out secured by Major from European work directive. His wish to join the EURO was however frustrated by his Chancellor, Gordon Brown, on the bases of the so called five tests which assessed the impact of the UK joining the common currency as being negative.

Notwithstanding this setback, there was a continued, but still barely perceived, and barely comprehended, move by the UK in its position in the European project via the Nice and Lisbon Treaties. It would be unfair to characterise the UK government as realising these objectives by stealth but their somewhat esoteric form – the diminution of sovereignty through acceptance of majority decision making and ceding of certain aspects of governance to Brussels and Strasburg located authorities – appeared too policy wonkish and remote from the concerns of the electorate fixated on rising housing prices. Such moves were opposed by Conservative Party MPs and supporters of the Referendum Party and the nascent UKIP.

That said, the differing reactions of the UK and France with Germany to the Iraq problem over 2002 and 2003 also did not assist. Neither side emerged with much credit from the affair. On one side, the UK needed the second vote of the UN to ensure that it could conduct a “just” war; the US did not as it was quite prepared to go to war without a second vote being held. Considerable efforts were devoted by the UK to diplomatic and covert means, including its signal intelligence, to lobby for votes in the Security Council to win over sceptical members.

France and Germany decided to oppose the war for less than pure motives. Of interest is that both these countries’ intelligence services also believed that Saddam Hussein retained weapons of mass destruction. Indeed, the German intelligence services had provided a key Iraqi defector, codename *Curveball*, who had confirmed stories of mobile chemical weapons units, which would be referred to by the US Secretary of State, Colin Powell, in his address to the UN in the case for war [5].

The French President Chirac had become violently opposed to the global power exercised by the USA; he had also become tainted by allegations of corruption over the UN Iraqi food-for-oil programme.

The German Chancellor Schroder seeking election had decided to tap the anti-Americanism exhibited by certain sections of the German electorate to secure another term.

Both men had then made a point of publicly announcing their opposition to the war with no less than President Putin of Russia. An irony not lost on the UK given recent Anglo-French moves at improving defence and security cooperation just a few years before.

Blair’s attempts to rally international support revealed the limits of British influence on both the global stage in general – with the UN, a major mainstay of Britain’s status on its Security Council appearing to not actually mean much given the body’s apparent irresolution in the face of Iraq’s defiance and some of its members corrupted by Iraq’s blandishments – and in particular with its two critical European partners and the USA.

To this was added further troubling matters of concern; to borrow Shakespeare, trouble was coming only just “in single spies” rather than “whole battalions”. UK intelligence coverage of Iraq was not strong and neither SIS or GCHQ were fully able to penetrate the country to provide intelligence on the country’s WMD and its intentions.

Furthermore, whatever caveats and nuances may have been provided on this, intelligence on key parts of the population, such as the Shiite attitude to the allies as well as more importantly the reactions of Iraq’s neighbours to the invasion also seemed not to have been sufficiently informed. The Shiite population hardly welcomed the invasion; and the Iranians moved quickly to exploit the fall of Saddam by thoroughly penetrating the country and wielding its influence over the greater part of the country and its government. The UK and USA had emboldened a major enemy of the Sunni regimes it supported in the region and destabilised the Middle East into the bargain.

While the battle to replace Saddam was won, the war to stabilise Iraq in the aftermath was lost [13]. Britain’s military force in the Shiite south, including Basra, were barely able to contain the insurgent forces, largely trained, equipped and in cases led by, the Iranians. This combined with the ongoing conflict to shore up a widely unpopular and wholly corrupt regime in Afghanistan placed further strain on an overstretched British military.

Indeed, the British military in Afghanistan were engaged in a high-intensity conflict in the Helmand province which accounted for not far off 90% of the world’s heroin supply which enriched the ruling Afghan political elite, the Taliban, Al-Qaeda as well as the Pakistani military [15].

Both wars revealed major shortcomings in equipment, training, military leadership and political judgement. Military Power and Political Power were adversely affected as such. In many respects, Britain appeared to fall within Paul Kennedy’s definition of “imperial overstretch” albeit it had largely forfeited its empire almost fifty years before [9].

### **The 2007–2008 financial crisis and the great recession: British Economic Power crumbles**

The “final straw” which might be said to account for Britain’s subsequent fall came in the all too familiar area of its Economic Power.

Over the period of the Labour government from 1997 to 2007, the UK manufacturing shed over 1,2 million jobs despite there being no recession, unlike the job losses suffered in this sector during the Thatcher years in 1979–1982 and following the Lawson boom of 1986–1988 [21, p. 68–70]. Over the period from 1997 to 2007, despite increases in wages post 2000 Internet boom, the picture was one of earnings compression – in 2007, average real earnings (adjusted by the RPI) fell 0,4% year on year [21, p. 48–49]<sup>5</sup>. Globalisation thus brought benefits in terms of cheaper goods but it also presented a challenge for the UK government and population alike. Job creation therefore largely fell to the service sector as well as the public sector. The latter was particularly convenient for the government as it avoided the need for some searching questions in respect of whether education and retraining was needed for significant sectors of the working population.

While membership of trade unions in the UK has decreased overall, the public sector unions have retained a significant presence and arguably have increased their influence through their near monopoly control over public sector workforce. Of a total trade union membership of 6,5 million in 2010, 4,1 million (or 63%) were public sector employees<sup>6</sup>. Due to their influence, they were able to secure a significant share of the increased government spending as wage rises over the period as well as future benefits in the form of enhanced pensions. Pensions are the UK’s second largest intergenerational commitment, currently estimated at 8,1% of 2010 GDP (up from 5,8% in 1995) or £117 billion, approximately half of which goes to former government employees<sup>7</sup>. In addition, public sector unions have significant influence in choosing the leadership of the Labour Party as well as providing party funding. For Gordon Brown, this was a key constituency to court in his longrunning quest to succeed Blair as Prime Minister and writers have documented a number of episodes over the period in government where he effectively “blocked” Blair in efforts to trim the public sector [17].

In particular, individuals can enjoy consumption out of their wealth such as increasing share prices or, more typically, their houses, which for many represented their major wealth holding. Borrowing on the basis of an already owned house or to acquire a house with increased levels of borrowing thus became popular. Accordingly, UK personal sector debt as a % of disposable income rose from 108% in 1992 to around 180% in 2007 – approximately a third higher than the comparative figures for the US, normally much maligned for its credit fuelled consumption spending.

House prices rose significantly over the period (from 1983 to 2007, house prices increased on average by 605% [10], thus providing for significant swathes of the electorate the appropriate “feelgood” factor and the ready means to finance more consumption. The rising housing prices fed into higher valuations of collateral, which in turn provided the rationale for further bank lending. A weak set of political opponents combined with the debt financed “illusion of affluence” ensured the Labour government were re elected in 2001 and 2005. The euphoria was beneficial in that particularly the housing and financial sectors could employ significant numbers of those who had lost jobs in the manufacturing sector. It was also to provide the government, and particularly Mr Brown, a further economic benefit: “In the period up to 2007–2008, the UK became reliant on tax revenues from the financial and property sectors in terms of corporate tax, income taxes on increased bonuses, stamp duty etc. It is worth reflecting on whether the UK government had a conflict of interest in such times as it became reliant on such tax revenues to engage in increased public spending – it was intermediating between the financial and public sectors – and therefore became reluctant to “step in” to exercise restraint in times of euphoria. The expansion in private borrowings led to windfall profits/earnings, of which a significant share was paid to the government in the form of taxes. As the peak passed, there were declines in asset, particularly housing, prices and therefore an inability to repay the borrowings i. e. individuals to bank or interbank; and the government was ultimately required to step in to assume the liabilities of the banking sector. In effect, in addition to its own public borrowing, the government was financing its expenditures with a share of the growth in private credits! Thus, according to one commentator, the financial sector paid taxes of £203 billion in the five years before the crunch in 2007–2008, but the total exposure of the UK taxpayer to the banks, arising from the subsequent bailout, amounted to £ 1,3 trillion”.

In order for the state of affairs to continue, the government avoided any action that might have curtailed overborrowing by individuals but more importantly, overlending by financial institutions. The Chan-

<sup>5</sup> A further facet is also worth noting: Between 1979 and 1986, jobs in the manufacturing industry shrank from 7 million to 5,1 million. Of all the jobs lost, in services as well as manufacturing, 94% were to the north of the line between the Wash and the Bristol Channel. The areas affected would later also vote for Brexit.

<sup>6</sup> See: UK Statistics Authority, April 2011, “Trade Union Membership 2010”. URL: <http://stats.bis.gov.uk/UKSA/tu/TUM2010.pdf>.

<sup>7</sup> ASI, Miles Saltiel, 2010, “On Borrowed Time”.

cellor had ensured that any regulation over the financial sector was to be “light touch”. As regulators were appointed by the Chancellor, who had in fact himself designed the regulatory architecture on his appointment, there appeared to be no real institutional checks in place to question the everincreasing high levels of personal indebtedness. Indeed, the UK only first made contact with reality in late 2007 when queues started forming outside the branches of Northern Rock [3] – a financial institution specialising in granting mortgages which hitherto had achieved seemingly miraculous growth rates, as reflected in its booming share price, – to quickly withdraw their deposits. In due course, the bank was reluctantly nationalised by the government – it was the first bank failure since Overend, Gurney & Co in 1866. While the US subprime was to provide the spark, it is fair to say that the high levels of indebtedness in the UK personal and government sectors were already in place to create a dangerously explosive situation.

The collapse in Economic Power was profound in its consequences: the deepest recession since the 1920s; the slowest recovery since the 1920s; the worst decade for earnings growth since the 1860s – if not earlier; the highest deficit since the second world war; and the biggest peacetime surge in public debt<sup>8</sup>. According to one commentator, the Conservative Party – first in coalition from 2010–2015 with the Liberal Democrats and then alone in power (with a reduced majority in 2017) – “have presided over one of the most pathetic and febrile periods in our economy’s history”<sup>9</sup>.

Indeed, it might be argued that the “fiscal illusion” of stealth taxes (increases in VAT and others offsetting headline decreases in personal income tax rates), increased public debts and deficits (interestingly as recently compounded by increased rates of inflation) have constituted just another variant of the problem affecting Britain’s Military, Political and even Ideological Power where longstanding inherited and collective delusions have collided with the harsh realities of life in the twenty first century. Poor leadership has assisted in this regard and even relatively good leadership has appeared merely to “delay the obvious”.

Before leaving this section, it is worth reflecting on the realities for Britain of the Financial Crisis and what it revealed about Britain’s Economic Power. In the aftermath of the crisis, politicians of all hues were keen to distance themselves from the “greedy bankers” whose failings had contributed to the unhappy state of affairs. As we will see with Brexit later, there were plenty of paradoxes arising from the near bankruptcy of Britain’s financial sector. Firstly, the government bailout stood in sharp contrast to the Thatcher government’s stated unwillingness to moderate its policies in the wake of the millions of jobs lost in the manufacturing sector in the early 1979–1981. Clearly free market ideas only operated up to a point. Those people living in the areas worst affected would continue voting for Labour or flirting with UKIP. But Cameron’s illconsidered idea to allow a Brexit referendum which gave that disaffected part of the electorate to inflict a painful defeat on the political class over the perceived doublestandards applying to the financial sector.

The British people seemed to fail to recognise how their new hospitals or schools or other services were being financed by the tax revenues derived from the financial sector. Indeed, even after the crisis and recession, the City of London is still a contributor to the welfare state as mediated by the government. For the government in power, there is an element of not wishing to enlighten the great British public with the realities of life. “You can’t handle the truth!” says the Jack Nicholson character to the naïve military advocate, Tom Cruise, in the film “A Few Good Men”. Politicians do not get far by speaking unnecessary truths to electorates; the latter prefer the safer option of *plausible deniability* arising from an unspoken bargain of “don’t tell us and we won’t ask”.

According to Deutsche Bank – no stranger itself to charges of facilitating moneylaundering – around GBP 133 billion of “hidden capital” that cannot be explained has come into the UK since the mid-Seventies<sup>10</sup>. The country’s National Crime Agency has estimated that “hundreds of billions of US dollars of criminal money almost certainly continue to be laundered through UK banks, including their subsidiaries, each year”<sup>11</sup>. The financial sector benefitted from these inflows and so did the British exchequer and finally the British public.

While Russian money has often been cited as one of the sources of “dirty money”, it is also worth highlighting that other sources of illicit funds have also been noted. In particular, one of Britain’s largest banks, HSBC, was fined for laundering funds for Mexico’s largest drug cartel, the Sinoloa organisation<sup>12</sup>.

#### **Cameron in office: lessons unlearned and the rise of panglossian politics**

It was a curious facet of the Cameron government that lessons from the previous conflicts were either ignored or unlearned. First of all, the Anglo-French intervention in unseating Gaddafi ostensibly secured the buyin from the USA which had been withheld at the time of the Suez Crisis.

<sup>8</sup> As noted by Paul Johnson of the Institute for Fiscal Studies.

<sup>9</sup> See: May J. Britain’s lost decades. URL: <http://www.progressonline.org.uk/2018/03/20/britains-lost-decades/> (date of request: 20.03.2018).

<sup>10</sup> See: <http://www.dailymail.co.uk/news/article-4366206/Dirty-secrets-laundromat-Illicit-roubles-London.html#ixzz5BXk9PC4G>. Deutsche Bank was fined more than GBP 500 million by US and British regulators for failing to prevent USD 10 billion (GBP 8 billion) of tainted roubles flowing through its hands.

<sup>11</sup> See: <http://www.dailymail.co.uk/news/article-4366206/Dirty-secrets-laundromat-Illicit-roubles-London.html>.

<sup>12</sup> See: file:///C:/Users/user/AppData/Local/Temp/PSI%20REPORT-HSBC%20CASE%20HISTORY%20(9.6)2.pdf.

The conflict in Libya again raised pertinent questions of the efficacy of British (and indeed NATO) Military Power. The intervention would not have achieved its goals without active US assistance in terms of air and intelligence/surveillance assets and assistance.

The exit of Gaddafi however had not led to how the immediate aftermath would be managed given an aversion to place a significant military force on the ground for peacekeeping. Surely the lesson from Iraq to have been digested is to address “what happens next” and planning post removal of a dictator?

A further lesson unlearned was Britain's wish to obtain some form of “approval” for military action which involved the enforcement of the “red lines” in Syria for the use of chemical weapons against the anti Assad opposition. The calling of a parliamentary vote when sufficient discretion was permitted to the prime minister for such an action and a failure “to count the votes” beforehand left Cameron in a difficult position vis a vis both the USA and France when the House of Commons voted against military action in Syria. Of interest is that since this time the UK involvement in Syria has been conducted under such discretion.

Two referenda and two general elections in the space of two years have brought to the surface a series of uncomfortable truths which are still being faced by both the political class and the British public at large.

A decision by Cameron to hold a referendum in Scotland in late 2014 very nearly led to a vote for independence. The fact that Britain's nuclear deterrent is located in Scotland in Faslane brought home to the political class – or at least that which cared about the defence and national security – that a vote for independence would have shaken the very foundations of Britain's claim to being a first rank power since possession of nuclear weapons (and important the capability to launch them without first being destroyed) was now just a matter of electoral arithmetic. If the nationalists were to secure 200 000 or more votes from its opponents, then that claim as a nuclear power would be in doubt.

The Scottish nationalist's almost clean sweep of seats above the border in the 2015 General Election and the fact that Scotland voted during the Brexit referendum in 2016 to remain in the EU by 62% to 38% have left not just the nuclear deterrent an open question but indeed the very sustainability of the United Kingdom. It remains one paradox among the many created by the Brexit vote that a “Britannia unchained” from its European “moorings” and stepping boldly out into its brave new world to avail itself of opportunities befitting its new found status may do so without a reasonable part of its own nation-state, namely Scotland.

But not only. The island of Ireland has been divided since 1921 between the six counties of Ulster in the north and the Republic of Ireland (Eire) in the south. A protracted insurgency from 1969 up to 1998 saw the deaths of over a thousand troops and police as well as several thousand inhabitants. The peace agreement was the outcome of political footwork as much as the successful conduct by both the British military and intelligence services. The Brexit referendum saw a vote to remain of 56% to 44% but the dominant political party (by a narrow margin) in Northern Ireland, the Democratic Ulster Party, supported the exit decision and was in effect supporting the minority Conservative government to remain in power following the 2017 General Election. Thus a further paradox emerged from the cleavages wrought by the Cameron decision to hold referenda, both of which he expected to win with little problem: a democratic decision to remain was thwarted by the majority Protestant party voting a minority Conservative party with a less than overwhelming election mandate to embark on a major withdrawal from Europe. Talk was turning to whether border, open since the peace agreement, would now be closed as the inevitable consequences of leaving the Single Market and the Customs Agreement transmuted into border checks. Talk of a renewed conflict may have been overstated but the constitutional issues arising, including whether the EU would retain sovereignty over this part of the UK or not, still remained unanswered.

Indeed, the single market and customs union arrangements cast an uncomfortable light on another facet of the consequences of the Brexit vote and the promotion of a “Global Britain” unshackled from its European neighbours and ready to do business in the wider world, that of economics and how Britain actually made its way in the world<sup>13</sup>.

One of the advantages (or fantasies, depending on outlook) promoted by the Brexit supporters was of decoupling from the rules and regulations of “old Europe” (to borrow from Donald Rumsfeld) in order to take advantage of new opportunities with emerging markets. However, UK's exports to the Republic of Ireland, which primarily comprised of agricultural goods, were more than the UK's exports to Brazil, Russia, India and China – the so called BRICs.

While Britain “struggled under the yoke” of rules and regulations imposed by Brussels, German exports to India trebled over the period while the UK barely registered much export growth at all.

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<sup>13</sup> According to a report by MPs on the Foreign Affairs Select Committee, “the Foreign Office's post-Brexit policy of “Global Britain” is a meaningless slogan, currently underpinned by no clear political, strategic or funding analysis.” Expert witnesses to the committee's inquiry, including a former permanent secretary at the FCO, Sir Simon Fraser, were unclear “what Global Britain means, what it stands for or how its success should be measured,” the report said. Fraser told the committee he feared the FCO had so far produced only “mushy thinking” and “simplistic words”.

See: <https://www.theguardian.com/politics/2018/mar/12/foreign-office-policy-of-global-britain-is-superficial-rebranding> (date of request: 12.03.2018).



The pursuit of minimum government interference in manufacturing industry (and after all, a previous government minister had remarked that “no industrial policy constitutes a policy of sorts”), the wellknown deficiencies in education and training, the consequence of the reliance on growth in the financial sector, poor management (flattered by the infusion of foreign managers), poor productivity (only partially ameliorated by EU membership), overly generous immigration policies<sup>14</sup> and a lack of political leadership (“all is for the best in the best of all worlds”) had not added to – and had greatly subtracted from – Britain’s potential Economic Power. While membership of the European project had been necessary, it had not proved sufficient to offset the other longstanding problems faced by Britain.

A further factor – impinging upon Ideological Power – was “cultural dementia”. The phrase was coined by Professor David Andress [2], who argues that Britain (as well as France and the USA) is engaged in “particular forms of forgetting, mistaking and misremembering the past”. This is, in his view, more threatening than straightforward nostalgia, which is a form of homesickness. As a result of demographics, the UK population is older than it has ever been, but in Andress’s words the country appears to be “abandoning the wisdom of maturity for senescent daydreams of recovered youth”, and along the way “stirring up old hatreds, giving disturbing voice to destructive rage and risking the collapse of [our] capacity for decisive, effective and just governance”. An example of the daydreams is the belief that the nations of the old empire are “queuing up” to sign trade deals with the country that once ruled them. A case of Empire 2.0. This found its realisation in wishful thinking about India ahead of a visit by Mrs May in November 2016 when she was seeking a free trade agreement but India had more immediate demands such as increasing student visas and seeking reassurances over its investments in the UK post Brexit. It has also been promoted by Dr Liam Fox, the Minister for International Trade, who touted a prospective free trade arrangement with Australia as part of the “Global Britain” project; Australia ranked number 19 of Britain’s leading export markets [20].

According to a 2014 YouGov poll of 1 741 people across Britain, 59% felt the empire was something to be proud of and only 19% thought it was something to be ashamed of. Almost half the respondents felt the colonies were better off for being colonised; only 15% felt they were worse off [20]. Nostalgia for a return to an economic model based on the direct and indirect exploitation of the coloured peoples appeared to be shared by the political class and a significant part of the British public [2, p. 7–14].

Britain’s Military Power also appeared to follow its “Global Britain” Empire 2.0 ambitions with a return to a form of “East of Suez” policy almost fifty years after it had called time on its global pretensions in the wake of a financial crisis. In September 2014, it was reported that the British military were considering the opening of up to three military bases in the Middle East in Bahrain, Dubai and Oman [14]. Work started on the construction of the base in Bahrain in November 2015 [19]. While the ostensible aim appears to be fighting Islamic State, it is more likely that the location of facilities in the Persian Gulf are for protecting essential British interests in the region involving oil supplies and protecting important markets for arms sales – two-thirds of UK weapons have been sold to Middle Eastern countries since 2010 [18].

In February 2018, it was reported that the Royal Navy intended to sail a frigate through the disputed waters of the South China Sea in a direct challenge to China which lays claim to the area and has constructed a number of military facilities on reefs and atolls there<sup>15</sup>. The freedom-of-navigation cruise follows the US’s own practise of seeking to confront the growing power of the Chinese in the region and appears to have been coordinated with the US. The Chinese reaction will be of interest given the British Navy’s historic role in enforcing the opium trade on two occasions in the nineteenth century.

In addition, the Royal Navy was planning to bring into service two aircraft carriers as a further indicator of its intent to project seapower in the world.

Thus British Military Power was again being utilised to maintain Economic Power through securing of oil supplies and trade routes (Persian Gulf as well as in the Pacific) and facilitate arms sales – one of the few remaining manufacturing capabilities left after the decline of British industry from the 1980s onwards<sup>16</sup>. However, this expanded global role for Britain’s military seems at odds with the problems faced in running two conflicts at the same time in Afghanistan and Iraq; and doubly so given the austerity policies of the Cameron government had led to deep cuts in the military; the British army’s regular force is just 82 000; the same as in 1800<sup>17</sup>.

<sup>14</sup> In 2004, Blair’s government decided to open the UK labour market to the eight eastern and central European countries that had joined the EU. Only two other member states, Sweden and Ireland, did so as freely. Between 5 000 and 13 000 migrants were expected but within the first year, 129 000 turned up. Blair and other senior Labour figures later conceded that they had made a mistake. In the 2010 General Election, Brown would experience the wrath of a Labour voter criticising the immigration policy and then make unguarded comments afterwards criticising the voter for “bigotry”. He was forced to apologise in the ensuing furor. Labour’s own heartland in the north has been threatened by UKIP who have found a receptive audience in disgruntled voters and this accounts for Labour’s somewhat schizophrenic behaviour since the Brexit vote as it is concerned about losing votes in these important seats. The north east and north west voted to leave by 58% and 54% respectively in favour of Brexit. But 60% of Labour supporters voted “Remain”.

<sup>15</sup> See: <https://www.independent.co.uk/news/world/asia/uk-south-china-sea-royal-navy-warship-beijing-hms-sutherland-gavin-williamson-trump-us-australia-a8208016.html>.

<sup>16</sup> See: <https://www.sipri.org/sites/default/files/2017-09/yb17-summary-eng.pdf>.

<sup>17</sup> On p17, it is noted that the UK was the sixth largest arms exporter from 2012–2016 with a global market share of 4.6%.

See: [http://military.wikia.com/wiki/British\\_Army](http://military.wikia.com/wiki/British_Army).

## Conclusions

According to government forecasts and policy announced to date, the economy will grow by at least five per cent less over the next 15 years than it would have been if the UK had stayed in the European Union, and could be up to eight per cent lower if no deal between the United Kingdom and the EU is reached<sup>18</sup>. Economic Power is thus set to diminish further.

Given there is no essential rethink of the country's economic model as well as constraints operating, the midterm outlook is hardly propitious. The long lead periods for negotiating and importantly agreeing trade deals (up to 10 years or so) thus making any potential benefits, if any, from new deals a longterm prospect. Much will hinge on whether the UK can fast replicate the set of arrangements it already has with the EU (which accounts for eight of its ten leading export markets) a matter of the highest priority. The decision to exit both the Single Market and the Customs Union makes this a far more difficult matter than should be.

The French statesman, Talleyrand, stated: "An important art of politicians is to find new names for institutions which under old names have become odious to the public." The institutions of the EU, it has become clear from the Brexit Referendum, have become "odious" to 52% of the voting electorate. The challenge for the British political class is to devise ways and means of creating a set of arrangements with the EU to ensure that the country does somehow remain a member in some manner or form of the EU without appearing to do so to the great British public and if the EU can accept such an arrangement. This would appear to a very tall order. Indeed, there is good reason to believe so from the Orwellian phrases being applied by the UK government to mask the essential climbdowns from untenable positions maintained since the Article 50 letter was issued in March 2017 to formally start the exit process.

Thus, the UK will be subject to European Court of Justice decisions for quite some time yet; payments will be made into the European budget for some time yet; EU citizens will have rights as before during the so called transition term; while immigration may fall – partly due to diminished economic prospects – huge swathes of the British economy – and no more so that the beloved National Health Service – will still require EU nationals to keep the country in the lifestyle to which it has become accustomed to if not been able to afford, for quite some time yet. Politics has become not so much "the art of the possible"<sup>19</sup> as artfully mastering the craft of telling the credulous voting public what it wants to hear while doing something entirely different.

Britain's economic model, as before, will depend on it continuing to attract the huge flow of global funds, both licit and illicit, which it can then earn fees and commissions on. Some remaining "archipelagos" of manufacturing such as the arms industry will continue as before. For those in areas voting heavily for Brexit, unrealistic expectations raised, such as the fictitious GBP 350 million per week "promised" for the NHS following Brexit, are unlikely to be fulfilled. Illusions and delusions come with heavy pricetags indeed.

With respect to Political Power, if we look at the domestic component first: the political dominance of the duopoly of the Conservative and Labour parties appears to have strengthened despite predictions made to the contrary. Peter Mair had noted a historical trend away from the major political parties [11]. But recent elections had seen the two parties together won 82,4% on a 68,2% turnout – an increase of respectively 15,1% and 2,5% on the election in 2015. The Liberal Party had been devastated in the 2015 election after serving in the coalition from 2010–2015; the UKIP had disintegrated in the wake of the 2016 Brexit referendum; and even the Scottish Nationalist Party had lost both seats and votes as opposition to a second independence referendum had contributed to tactical voting against it.

Parliament ostensibly still appeared to be the sovereign dispenser of laws and authority and was now more than ever an instrument of the political duopoly but it has seemed powerless at the same time to assert itself. MPs were voting for Brexit measures on the basis of the results of the referendum rather than on the basis of their own party platform – the Conservative Party manifesto policy was to remain in the EU! – or even in the majority despite their knowledge and beliefs that Brexit would leave their voters poorer if none the wiser. Political Power is thus in flux.

Externally, Political Power also appeared to be in flux as the "united front" of the EU-27 continued in the so called negotiations for the country's departure to the dismay of the UK government who insisted that the Europeans would surely see sense and accept what the UK wanted in terms of a free trade deal, no ECJ jurisdiction, no budget payments and no immigration. Where was the UK government basing its beliefs on? It is unlikely that the UK intelligence services (particularly its sigint capacity) was advising this or the UK's diplomatic arm. It all appeared to be wishful thinking on the side of the political class, as has occurred in the early 1950s and in 1992. Ideology and wishful thinking (or had they become identical?) appeared to be "trumping" both Political and Economic Power.

The election of Trump in the USA also spoke of a deeply uncertain (and perhaps inhospitable) environment in which "Global Britain" was stepping into. The intention by the USA to withdraw from a global

<sup>18</sup> See: <http://www.bbc.com/news/uk-politics-42977967>.

treaty on combatting global warming; the intention to scrap the standstill treaty with Iran on containing its nuclear ambitions; the predilection to initiate protectionist measures; the strange attempts by Trump to cobble some form of superpower understanding with Russia over the heads of Europe. All these were at odds with Britain's position and indeed contrary to Britain engagement in diplomatic efforts regarding Climate Change, the "5 + 1" agreement with Iran and its involvement in the Bretton Woods institutional architecture encompassing world trade. A free trade agreement with the USA in the light of Trump's rejection of Trans Pacific Partnership and the Atlantic based Transatlantic Trade and Investment Partnership, harsh criticism, and intended renegotiation, of NAFTA with Canada and Mexico, tariffs against steel and aluminium products on dubious national security grounds and measures against China, appeared to be further wishful thinking unless it was agreed solely on US terms and conditions.

Indeed, the approach to the world "as intended (or hoped for)" of free markets (than enjoyed in the EU) seemed at odds with the reasons for, and the people who had voted for, Brexit which were rooted in opposition to immigration, globalisation and broadly put, *change*.

John Sawers, the former head of MI6 noted in an interview: "We have made less impact in the world in the last ten years than we did in the 30 years before that". In the "period 1980 to 2010, Britain was quite an influential player in the world. However, I don't think since 2010 we've really had a big influence in global affairs".

"We are distracted as a nation by the requirements of Brexit," he continued. "I think the country's become less confident. And less outward-looking itself"<sup>20</sup>.

It is worth noting that notwithstanding the budgetary pressures, the UK government had ensured that the intelligence services had largely been insulated from the austerity measures. GCHQ and SIS could thus range far and wide over the world for intelligence for their political masters. This global role has not substantially changed since the end of the Second World War. The problem was that intelligence was only as good as the people who made the policy. With very few exceptions, the political class' decision making has been poor. Complacency over Britain's role in Europe led it to ignore this option in favour of a will-o-the-wisp idea to maintain a global role. The recurring sterling crises and "firefighting" involved to manage events before they spun out of control further distracted the political class. Britain thus "missed the European bus" before it knew it and joined the European Project with no real enthusiasm. Before too long, it convinced itself that its real destiny was for an imagined past when Britain ruled a two-fifths of the world. It was enabled by a political class as complacent as well as reluctant to confront reality.

Politics had triumphed over Economics but questions remained as to how long it would be before Economics remerged. In the meantime, British power had declined and would fall further.

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<sup>20</sup> See: <https://www.prospectmagazine.co.uk/politics/former-mi6-head-john-sawers-brexit-could-pose-long-term-problems-for-british-security> (date of request: 14.02.2018).

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